

Commerce Bancshares, Inc.
Compliance Department, TB12-1
922 Walnut P.O. Box 13686
Kansas City, MO 64199-3686

April 14, 2010

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551

Delivered via email:

RE: Docket Number R-1384

Dear Sir or Madam:

Commerce Bancshares, Inc. is a registered bank holding company with total assets of \$18.1 billion at December 31, 2009, and one bank subsidiary. The bank is a full-service bank, with approximately 374 locations in Missouri, Illinois, Kansas, Oklahoma, and Colorado and card operations in Nebraska. A full line of banking services, including investment management and securities brokerage is offered. The Company also has operating subsidiaries involved in mortgage banking, credit related insurance, and private equity activities.

We appreciate the opportunity to comment on the proposed amendments to Regulation Z, as published in the Federal Register on March 15, 2010.

Our comments are limited to the following:

Re-evaluation of Rate Increase

Comment requested: Should the obligation to review the rate applicable to a consumer's account be terminated after some specific time period elapse following the initial increase, for example, after five years, as well as on whether there is significant benefit to consumers from requiring card issuers to continue reevaluating rate increases even after an extended period of time.

We believe that there should be a defined time limit for the re-evaluation process and we would recommend two years. In our experience that is enough time for a consumer to recover after exhibiting high-risk behavior due to temporary circumstances. Also, if the rate increase previously applied to the account is the same as the current rate offered on new accounts for a consumer or on an account with the same characteristics that should meet the criteria for termination of semi-annual re-evaluation. Re-evaluation of a significant number of accounts twice a year will be an expensive process, resulting in a higher cost of credit to all consumers. A reasonable time limit will benefit both the lender and the consumer.

We appreciate the Board's clarification that the re-evaluation requirement exclude accounts where the rate was not increased.

There are three issues about which we would like further clarification:

- 1) Is any subsequent change to pricing as a result of the re-evaluation required to apply to existing balances or only to new transactions?

- 2) Is it the Board's expectation that re-evaluated pricing would always be lower than the most recent rate? If a consumer has exhibited an acceleration of high-risk behavior, the cost of funds or other external factors have increased, can the rates be further increased at the re-evaluation point with appropriate notification?
- 3) Does this evaluation only include purchase rate changes or all balance type pricing changes, such as cash advance APRs and penalty APRs?

§226.52 – Limitations on Fees

Comment requested: On the limitations on penalty fees.

We have a concern about the cost approach. The cost process is not truly accurate unless losses are factored, because accounts that pay late have a higher percentage of continued delinquency and loss than other accounts.

The proposal states that issuers should base the late fee on a percentage of the payment amount due on the account. We recognize that a late payment is indicative of risk on the remaining balance, not solely the amount of that single payment. The ability to tier late fees based on account balance better compensates for the amount of risk represented by delinquency.

In addition, since minimum payment requirements are not consistent throughout the industry, issuers may be encouraged to increase minimum payments in order to increase the fees.

Regarding the requirement for annual re-evaluation of late fees, this re-evaluation process will add costs in order to accurately charge customers, likely resulting in a higher cost of credit to all consumers.

The deterrent approach would require significant time to gather information and accurately develop and validate a model, making it unrealistic to meet the August 22, 2010 effective date.

The majority of small to mid-size issuers are likely to rely on the safe harbor. If the safe harbor results in a late fee that does not support the cost of extending credit to consumers who have a tendency to pay late from time to time, the result may be a higher cost of credit to all consumers, a reduction in credit availability to all but the lowest risk consumers, or both.

Because there are on-going costs involved with maintaining an account on our accounting system, producing statements and other periodic regulatory disclosures, producing and mailing renewal plastics, and maintaining various access channels for our customers' convenience, we feel an inactivity fee should not be prohibited under the "no dollar amount associated" restriction.

Thank you for the opportunity to comment.

Sincerely,

Katherine L O'Keefe
Compliance Officer